

INSTRUCTIONS FOR PREPARING A QUALIFIED ZONE ACADEMY LOAN APPLICATION

Overview

Qualified Zone Academy Bonds ("QZABs") are taxable bonds issued by the Tennessee State School Bond Authority (the "Authority"), the proceeds of which are loaned to local governments to improve certain eligible public schools. The QZAB investor receives federal income tax credits in addition to periodic interest payments, if any, from the Authority while the bonds are outstanding. The tax credits (together with interest payments, if any) compensate the holder for lending money and function as payments of interest on the bonds. As a result, the local government unit (LGU) and the local education agency (LEA) are the beneficiaries of the proceeds and pay little or no interest to borrow funds. The credit rate is determined by the Treasury Department and equals the percentage that the Department estimates generally will permit the issuance of QZABs without discount or interest cost to the issuer. Also, the maximum term of the QZABs is determined by the Treasury Department and equals the term the Department estimates will result in the present value of the obligation to repay the principal on the bond being equal to 50 percent of the face amount of the bond.

The United States Treasury imposes certain tax requirements on the issuance of QZABs. To comply with these requirements, the Authority needs to obtain very specific information from each borrower regarding the qualifying school (academy) and the use of proceeds. The purpose of these instructions is to inform you of these requirements and the process to apply for participation in the QZAB program.

Local governments include counties and cities that operate school systems and special school districts. QZAB proceeds cannot be loaned directly to school districts as such districts generally do not have the power to levy taxes in Tennessee. For purposes of these instructions, the term "local government unit" (LGU) will be used to refer to the county or city that would be the borrower of the proceeds of the QZABs, and the term "local education agency" or "LEA" will be used to refer to the school system of the county or city that actually operates the school or schools that will be the beneficiary of the proceeds of the QZABs.

The repayment of the QZAB loan is secured by the general obligation pledge of the local government (city or county) and the local government's portion of the state-shared taxes. The local government must authorize the issuance of the debt in compliance with all federal, state, and local regulations. QZAB proceeds are dedicated to specific programs, defined as academies, in specific schools. TCA §49-3-1206(d)(2), states "Counties having a city or cities operating schools independent of the county or having special school districts operating schools independent of the county shall not be required to share proceeds of any loan agreement of a qualified zone academy project, notwithstanding any other law to the contrary".

GENERAL REQUIREMENTS

Proceeds of QZABs can only be used to finance improvements for "Qualified Zone Academies" (an "Academy"). Therefore, before a local government applies for a QZAB loan, the local government and the LEA for the local government must determine whether the LEA operates one or more Academies that would be eligible for QZAB financing. For federal tax purposes, each school (or at the election of LEA, an academic program within a school) is analyzed separately to determine whether the school (or program) is an Academy that is eligible for QZAB financing. Pursuant to federal tax laws, an Academy means any public school (or academic program within a public school) which is established by and operated under the supervision of an eligible LEA to provide education or training below the postsecondary level if:

- such public school or program is designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the increasingly complex workforce,
- students in such public school or program will be subject to the same academic standards and assessments as other students educated by the eligible LEA,
- the comprehensive education plan of such public school or program is approved by the eligible LEA, and
- such public school is located in an empowerment zone or enterprise community, or there is reasonable expectation (as of the date of issuance of the bonds) that at least 35 percent of the students attending such school or participating in such program will be eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act.

Pursuant to federal tax rules, the State of Tennessee, acting through the Authority, may issue QZAB bonds. A small portion of the proceeds of the QZABs must be used to pay costs of issuance relating to the QZABs.

An LEA may apply for a loan of QZAB proceeds on behalf of more than one school or program within its system. The total QZAB loan amount for each LGU must be at least \$50,000. Loans for each Academy will be reviewed and recommended by the Tennessee Department of Education and approved by the Tennessee State School Bond Authority.

There is a federal qualified zone academy bond limitation on the amount of QZABs which may be issued for each calendar year. Since the inception of the program, the national limitation has been \$400,000,000 each year. This federal limitation is allocated by the U.S. Treasury Secretary among the states on the basis of their respective populations of individuals below the poverty line. For the calendar years of 2006 and 2007, Tennessee was allocated a total of \$17,900,000 (\$8,950,000 per year). Due to the limited amount of the federal allocation, no more than \$2,500,000 in loans may be approved for any local government. However, requests for more than \$2,500,000 will be reviewed on a case by case basis. All applications from an LEA must be submitted together with a single cover page. **However, if a LEA applies on behalf of more than one school or program, each individual school or program must qualify independently of any other school or program within the LEA.**

The proceeds of QZABs that are loaned to a local government must be used for the items listed below:

- rehabilitating or repairing the public school facility in which the Academy is established,
- providing or purchasing equipment for use at such Academy

QZAB bond proceeds cannot be used for new construction. Although the federal law provides for four uses of QZAB bond proceeds, in Tennessee, the proceeds of QZABs may **not** be used for developing course materials for education or training teachers and other school personnel in such Academy.

Private Business Contribution Requirement. In addition to requirements outlined above, each LEA must obtain for each Academy that is to be the beneficiary of QZAB proceeds written commitments from private entities to make qualified contributions (as defined below) having a present value (as of the date the QZABs are issued) of not less than 12 percent of the proceeds of the QZAB issue, including the academy's pro rata share of the costs of issuance. **A contributor may not be a governmental entity.** For purposes of federal tax law, the term "qualified contribution" means any contribution (of a type and quality acceptable to the eligible LEA) of:

- equipment for use in the Academy (including state-of-the-art technology and vocational equipment),
- technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom,
- services of employees as volunteer mentors,
- internships, field trips, or other educational opportunities outside the Academy for students, or
- any other property (including cash) or service specified by the eligible LEA.

To determine the present value of the qualified contributions, the Authority must use a reasonable discount rate which will be determined by the Authority at the time the QZABs are issued. Because the discount rate, the date of the issuance of the QZABs, and the amount of the issuance expenses relating to the QZABs cannot be specifically determined at the time applications are due, each LEA will need to make certain assumptions as to these items in determining whether adequate commitments for qualified contributions have been obtained. Qualified Zone Academy Bond Rates are updated by 10:00 a.m. each federal business day. To be conservative, LEAs should add 25 to 50 basis points to the current rate. The current credit tax rate can be found at the following website: www.treasurydirect.gov/SZ/SPESQZABRate. A present value calculator can be found at the following link: www.moneychimp.com/calculator/popup/calculator.htm.

For purposes of this calculation, assume today is November 1, 2007. By clicking on credit rates website, it is determined that the discount rate is 5.85% compounded annually. The date of issuance of the QZABs will be May 1, 2008 and issuance expenses will be 5% of the proceeds of the QZABs that are borrowed by the local government for each Academy. If a local government

desires to borrow \$1,000,000 of QZAB proceeds to make improvements to an Academy, the local government and its LEA should assume that issuance expenses will be \$50,000 (5% of the issue), and qualified contributions would be needed that have a present value of 12% of \$1,050,000 (i.e., \$126, 000).

If the LEA has a commitment for a \$150,000 qualified contribution to be received on May 1, 2009, the present value of the contribution on May 1, 2008 at a discount rate of 6.18% (5.68% current rate plus 50 basis points) is \$137,096.76, which is in excess of the 12% contribution requirement (i.e., \$126,000). (Note: The federal rules require a 10% qualified contribution. However, the present value of the contributions may change between the date of the application and the date the bonds are sold. Furthermore, some expected contributions may not qualify. Thus, the TSSBA requires initial anticipated contributions equal to the present value of 12% of the loan.) This is determined by going to the present value calculator, making sure the calculator is set for present value, and entering \$150,000 as the future value, 1.5 as the number of years when the contribution will be received, and 6.18% as the discount rate.

For these reasons, the LEA will be required to provide the following information with the application:

- the nature of the qualified contribution(s) to be provided to each Academy,
- the latest possible date on which such contribution is expected to be received by the Academy, and
- the fair market value of the qualified contribution as of the date of the Application (volunteer time should be estimated at reasonable fair market value for the community).
- agreement signed by the contributor that the contribution(s) will be made.

LEAs should not accept qualified contributions prior to the issuance of the QZABs without the prior approval of the Authority.

Application Deadline

Applications will be accepted until September 2, 2008 or until all funds have been obligated and/or the Federal government ceases the program. Applications must be submitted to the State Department of Education with a postmark on or before the deadline date of September 2. When the Department of Education receives at least \$10,000,000 in qualifying requests, a recommendation will be made to the Tennessee State School Bond Authority for the issuance of QZABs. Bond proceeds will be available approximately ninety (90) days after the application deadline, September 2, 2008, provided applications received from all schools and recommended by the Department of Education exceed \$10,000,000 in total and all necessary legal documents to be approved by local governments can be approved in 60 days. Successful applicants will be notified in writing. Please respond completely to all items contained in this packet to ensure that the application can be processed in a timely manner and without delay.

Application Contents and Sequence

The sequence of the application should be as follows:

1. Cover page in any reasonable form selected by the LEA indicating: name of LEA, the name of each Academy for which QZAB proceeds would be used, the name of the Superintendent of the LEA, and the date of the application.
2. *Criteria for Eligibility Form* relative to each Academy for which QZAB proceeds will be used (see form A).
3. *Qualified Zone Academy Bonds Application Form* relative to each Academy for which QZAB proceeds will be used (form attached).
4. Commitments for qualified contributions. Each contributor must use the form provided as Exhibit A attached hereto.
5. Letter from the Mayor committing to submit to the City or County legislative body for approval an authorizing resolution and further committing to best effort to obtain such approval. The letter should also indicate the time of regularly scheduled meetings of the legislative body.

AN ORIGINAL AND FOUR COPIES OF THE APPLICATION PACKET SHOULD BE ADDRESSED TO:

QZAB
Tennessee Department of Education
Attn: Karen Weidemann
6th Floor, Andrew Johnson Tower
710 James Robertson Parkway
Nashville, TN 37243

If any applicant has questions regarding this application, or if any applicant needs assistance with respect to making any of the present value calculations that must be made in connection with the submission of this application, applicants may contact Karen Weideman at (615) 532-1662 or by e-mail at karen.weidemann@state.tn.us or contact Kimberly Granados at (615) 741-8835 or by e-mail at kim.granados@state.tn.us for assistance.

STEPS TO OBTAINING A QZAB LOAN

To qualify for the low-cost financing afforded through the Qualified Zone Academy Bond program, the LEA that operates the academy (ies) should take the following steps:

1. The LEA identifies eligible Academy costs that may be financed with the proceeds of QZABs, namely: rehabilitating or repairing the public school facility in which the Academy is established and/or providing or purchasing equipment for use at the Academy.
2. The LEA designs programs for the Academy in cooperation with business (and documents the details of the program in writing)
 - to enhance the academic curriculum,
 - increase graduation rates, and
 - better prepare students for the rigors of college and the increasingly complex workforce
3. The LEA obtains from the business(es) an estimate of the fair market value of the equipment, software, teacher training, and personnel time and facility cost associated with the internship and mentorship opportunities. In addition, the LEA obtains from the business a reasonable estimate of the latest possible dates that the LEA can expect to receive the contributions.
4. If the fair market value present valued to the date of issuance of the QZABs, is equal to or greater than at least 12 percent of the proceeds of the QZABs, including issuance costs, the LEA would obtain a written commitment of the contribution from the business.
5. The LEA requests a loan of QZAB proceeds from the Tennessee Department of Education for the loan amount, plus cost of issuance (the amount the local government expects to borrow) by preparing the application package. If the application is approved, the Tennessee Department of Education will provide a written verification of an allocation of the QZAB volume to the local government, the LEA, and the Authority.
6. The local government and the Authority will negotiate the structure of repayment of the loan amount with the TSSBA. The LGU may request the assistance of its financial advisor or the TSSBA in this process. However, any costs for such assistance cannot be paid with QZAB proceeds. The QZAB tax credit mechanism will generally eliminate most or all of the interest cost associated with the loan to the local government, but the principal amount of the QZABs (and any interest cost) is still a loan that must be repaid. The federal government will establish the maximum term of the loan. The maximum term has typically been approximately 15 years.
7. At the proper times, the governing body of the LGU and the LEA adopt appropriate resolutions approving the borrowing of the proceeds of the QZABs and the application of

such proceeds for the qualifying project. This resolution will be prepared by Bond Counsel to the Authority. This cost will be covered by the LGU's pro rata share of the costs of issuance.

8. The LEA provides the Authority with an estimated draw schedule for the use of proceeds, assuming funds are available on December 1.
9. The Authority arranges for the sale of the QZABs. Upon such sale, the Authority will retain the proceeds of the QZABs and invest such proceeds in the LGIP (Local Government Investment Pool) until they are disbursed to the local government. Such disbursements will be made only upon receipt of appropriate documentation and approval by the Tennessee Department of Education.
10. The local government repays the amount of QZAB proceeds borrowed from the Authority in accordance with an amortization schedule established by the Authority to comply with federal tax laws.

NEW FEDERAL REQUIREMENTS FOR QZABs (the "2006 Act")

1. Spending Expectations. The QZAB borrower must expect: (a) to spend its QZAB loan within five years , (b) to have a binding commitment with a third party to spend at least 10 percent of the loan proceeds within six-months, and (c) to complete its QZAB projects and spend its QZAB loan proceeds with due diligence.
2. Arbitrage and Rebate Limitations. The proceeds from the sale of the QZABs and amounts used to pay debt service on the QZABs will be subject to the arbitrage and rebate rules applicable to tax-exempt bond issues.

Bond Counsel for the Authority will prepare certificates and agreements for signature by the LEA to evidence compliance with the new requirements of the 2006 Act.

FORM A

CRITERIA FOR ELIGIBILITY

Each school (or academic program within a school) for which QZAB proceeds will be used must meet certain minimum eligibility criteria as a condition to apply and receive QZAB proceeds. This *Criteria for Eligibility* form is intended to assist applicants in determining whether these minimum eligibility criteria are met. **Please complete a separate *Criteria for Eligibility* form for each Qualified Zone Academy for which application is made.**

Name of Local Education Agency: _____

Name of School or Program for Which Application is to be made: _____

Check all that apply:

Qualified Zone Academy

_____ The school or program listed above is located in an *empowerment zone* or *enterprise community*. (Tennessee enterprise communities: Clinch-Powell enterprise community, Scott/McCreary enterprise community, and Fayette County/Haywood County enterprise community.) Note: The aforementioned information was obtained from the EZ/EC Communities website.

OR

_____ The school or program listed above has at least 35 percent or more of students eligible for free lunch or reduced lunch under the National School Lunch Act. Specify percentage of students eligible for free or reduced-cost lunches: _____%.

AND

The school or program has designed a program in cooperation with a business partner to enhance the academic curriculum of the school or program, increase graduation rates, and better prepare students for the rigors of college and the increasingly complex workforce.

Business Contribution

_____ The school or program obtains from one or more private businesses a commitment to provide equipment, software, teacher training, or personnel time and facility cost associated with the internship and mentorship opportunities; and the present value of the private commitment is at least 12% of the QZABs allocated to the school or program.

FORM B

QUALIFIED ZONE ACADEMY BONDS

**Application Form for Receipt of Proceeds of Qualified Zone Academy Bonds
Tennessee State School Bond Authority
and
Tennessee Department of Education**

Please complete a separate application for each Qualified Zone Academy for which application is made.

SECTION I: GENERAL INFORMATION

Applicant

(Legal Name of Local Education Agency ("LEA"))

Name of Superintendent/Director

Mailing Address (Street, City, State, Zip Code)

County

Telephone Number (Area Code & Number)

Fax Number (Area Code & Number)

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Name & Title of Contact Person

Mailing Address (Street, City, State, Zip)

Telephone Number (Area Code & Number)

Fax Number (Area Code & Number)

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E-mail Address

Name of Qualified Zone Academy for which Application is made:

Amount of Allocation Requested for Qualified Zone Academy Bond Issue with respect to this Qualified Zone Academy: \$_____

SECTION II: LEA APPROVAL

We the undersigned affirm that:

- this school meets the *Criteria for Eligibility* set forth on the form submitted with this QZAB application.
- this project is a part of a comprehensive plan approved by the local education agency.
- students of the school will be subject to the same academic standards and assessments as other students educated by the system.

Name of Superintendent
(Please print or type)

Name of Chairman of School Board
(Please print or type)

Signature of Superintendent

Signature of Chairman

Date

Date

Approval of this action is recorded in the official minutes of the LEA's board meeting held on

_____, 200__ and a certified copy of said minutes are attached hereto as Annex I.

SECTION III: LOCAL GOVERNMENT APPROVAL

Name of Local Government

Location

This is to certify that at a meeting on_____, 200__, the governing body of the above named local government approved the submission of this application in the amount of \$_____. A certified copy of the minutes of said meeting are attached hereto as Annex II.

Name of Government Official

Title

Signature of Government Official

Date

Contact Person

Telephone Number

()

How frequently does the governing body of the local government meet in regular session?_____

SECTION IV: PROGRAM DESCRIPTION

Part A

Name of Qualified Zone Academy: _____

Part B

Describe how programs of the Qualified Zone Academy identified in Section I above have been designed in cooperation with business to enhance the academic curriculum, increase graduation rates, and better prepare students for the rigors of college and the increasingly complex workforce. (If desired, the complete plan may be attached)._____

Part C

State the goals of the program for which QZAB proceeds will be utilized at the Qualified Zone Academy. _____

Part D

1. Attach a written commitment from each contributor of a qualified contribution for the school or program. The form of written commitment to be provided is attached to this application as Exhibit A.
2. Attach a list summarizing the qualified contributions for each school, the dates such qualified contributions will be made, and the present value of such qualified contributions as of June 1 or December 1 of the year application is made, using the most current discount rate, plus 50 basis points. To assist LEAs in determining the present value of qualified

contributions, Qualified Zone Academy Bond Rates can be obtained at the following website: www.treasurydirect.gov/SZ/SPEQZABRate and a present value [calculator](#) can be found at this link: www.moneychimp.com/calculator/popup/calculator.htm. These links can be used to allow LEAs to quickly calculate the present value of a qualified contribution to be received at a later date. For further assistance, please call Karen Weidemann in the Department of Education at (615) 532-1662 or Joseph Williams in the Division of Bond Finance, Office of the Comptroller, State of Tennessee at (615) 747-5374.

Part E

Provide labor market and/or employer needs for the school or program for which the application is made. _____

Part F

Provide a brief explanation regarding how the programs at the proposed Qualified Zone Academy relate to the local school improvement plan. _____

Part G

Describe how the programs described above will be sustained after the initial capital investment of QZAB proceeds and other contributions described herein are spent. _____

Part H

If the Qualified Zone Academy has implemented a recognized reform model such as "High Schools That Work" or "New American Schools", please describe. _____

SECTION V: PROJECT FUNDING

Complete the information requested below for each Qualified Zone Academy for which application is made and attach a justification (including an equipment list and cost estimates) regarding the costs included on the proposed budget.

Enter the aggregate present value of private contributions on this page if multiple private contributions are to be made to the Qualified Zone Academy.

REMINDER: The total QZAB loan amount for the local government must be at least \$50,000. Individual loans will be reviewed by the Tennessee Department of Education and recommended to the Tennessee State School Bond Authority for approval. Generally, no more than \$2,500,000 in loans will be approved for any single local education agency. However, requests for more than \$2,500,000 to any one LEA will be reviewed on a case by case basis.

Name of Qualified Zone Academy: _____

<i>Proposed Budget/ Contribution Item (if applicable)</i>	<i>Funds Requested from QZAB</i>	<i>Private Contributions</i>
Repair/Rehabilitation of Academy Facility	\$	\$
Equipment Purchase	\$	\$
Course Materials/ Development*	XXXXXXXXXX	\$
Training Teachers/ Other School Personnel*	XXXXXXXXXX	\$
Other Items* (including field trips, mentoring, etc.)	XXXXXXXXXX	\$
Totals	\$	\$

* Funding for these items may come from private contributions or from other funding sources but are not allowable from QZABs or public entities (i.e. local or state government). Multiple private contributions are allowable.

NOTE: Appropriate bidding procedures must be followed for the purchased services.

EXHIBIT A

PLEASE PROVIDE THIS EXPLANATION TO CONTRIBUTORS

EXPLANATION OF QUALIFIED ZONE ACADEMY BOND FINANCIAL COMMITMENT LETTER

The Tennessee State School Bond Authority (the "Authority") plans to issue Qualified Zone Academy Bonds ("QZABs") and loan the proceeds thereof to certain local governments. QZABs are taxable bonds, the proceeds of which are used to improve certain eligible public schools. In lieu of receiving periodic interest payments from the issuer, an eligible holder of QZABs is generally allowed annual federal income tax credits while the bonds are outstanding. These credits compensate the holder for lending money to the issuer and function as payments of interest on the bonds.

Federal income tax law imposes certain requirements relative to the issuance of QZABs. To comply with those requirements, the Authority needs to obtain very specific information from each borrower of proceeds of the QZABs. One of the requirements imposed by federal tax law relates specifically to private financial contributions to the borrower. To qualify for the use of QZAB proceeds, each borrower must obtain written commitments from private entities to make "qualified contributions" to the borrower having a present value (as of the date of issuance of the QZABs) of not less than 12% of the proceeds of the QZABs to be used with respect to each Academy (or program within a school). Because this requirement applies to each Academy at which QZAB proceeds will be spent, a separate financial commitment letter must be completed for each such Academy to which contributions will be made.

For purposes of federal income tax law as it relates to QZABs, a "qualified contribution" means any contribution (of a type and quality acceptable to the local education agency) of (i) equipment for use in the qualified zone academy (including state-of-the-art technology and vocational equipment), (ii) technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom, (iii) services of employees as volunteer mentors, (iv) internships, field trips, or other educational opportunities outside the academy for students, or (v) any other property (including cash) or service specified by the local education agency. The contributions must be for the use of the school and cannot be college scholarships for students once they have graduated from the school.

As noted above, total "qualified contributions" must have a present value of not less than 12% of the proceeds of the QZABs used by the borrower with respect to each school. Therefore, it is critical to identify an outside date by which the contribution or contributions will be made.

In determining the value of contributions, a contributor should use the reasonably expected fair market value of the contribution at the time the contribution will be made. The value of contributions of services of employees of the contributor is the reasonably expected fair market value of those services.

FORM C

FINANCIAL COMMITMENT LETTER

Please use this form, duplicated as needed. Use a separate form for each school or program to which contributions will be made

The undersigned _____ [name of private entity], hereby agrees to make the contributions identified below to _____ [name of school or program within a particular school].

Name of Business: _____

Address: _____

Phone Number: (____) _____ Fax Number: (____) _____

Contact Person: _____

Title: _____

[IF THE SPECIFIC NATURE OF THE FINANCIAL COMMITMENT IS KNOWN, PLEASE COMPLETE PART A AND DO NOT COMPLETE PART B. IF THE SPECIFIC NATURE OF THE FINANCIAL COMMITMENT IS NOT KNOWN, PLEASE SKIP PART A AND COMPLETE PART B.]

PART A

The undersigned commits to make the qualified contributions identified on the attached schedule by the dates indicated on such schedule. The undersigned has complied with the following instructions in completing the schedule.

Column 1. Describe the nature of the contribution that is expected to be made. The contribution must be a "qualified contribution" described in the attached explanation.

Column 2. Identify the latest possible date that each such qualified contribution is expected to be made. **If more than one contribution will be made (i.e. the contribution will be made in more than one installment), please list each contribution separately.**

Column 3. Enter the value of your "qualified contribution" as of the last date such contribution will be made.

Date: _____, 20_____

(Insert name of contributor)

By: _____

Title: _____

SCHEDULE TO PART A, FORM C

NAME OF SCHOOL: _____

1	2	3
<i>Description of Contribution</i>	<i>Last Date By Which Contribution Will Be Made</i>	<i>Value of Contribution</i>

PART B. FORM C

Although the undersigned has not identified the specific nature of the contributions to be made to the school identified above, the undersigned has been informed of the types of contributions that will constitute qualified contributions. The undersigned commits to make qualified contributions to the school (or program within a school) with a value at least equal to the amounts shown on the attached schedule by the dates shown on the attached schedule.

Date: _____, 20_____

(Insert name of contributor)

By: _____

Title: _____

SCHEDULE TO PART B

NAME OF SCHOOL: _____

1	2
<i>Value of Qualified Contributions</i>	<i>Last Date By Which Contribution Will Be Made</i>